

RJ-AEC-527  
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NEGOTIATING AND PROGRAMMING FOOD AID:  
LESSONS FROM EXPERIENCE

FINAL REPORT ON RESULTS OF FIVE  
EVALUATIVE CASE STUDIES

WORKING PAPER NO. 122

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February 1989

The views and interpretations expressed in this report are those of the authors and should not be attributed to the Agency for International Development.

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PREFACE

This report summarizes the conclusions and recommendations of five studies of Public Law (PL) 480 food aid programs in Haiti, Mali, Pakistan, Tunisia, and Zambia. The studies stress the process of identification, negotiation, implementation, and reporting involving the self-help provisions as well as the programming and monitoring of local currency use.

The study series specifically does not attempt to assess program impact.<sup>1</sup> In some individual country cases, observations or comments on program impacts were presented orally or in written form at the Mission's request. Also, the study series was not designed to cover special issues such as the so-called Belmon Amendment (Section 401B), which deals with the adequacy of storage and the possible disincentive effects of food aid on local production. The first two studies on the Tunisia Title I program and the Mali Title II, Section 206 program were carried out as pilot efforts to test whether the study approach would generate information that would be useful in guiding PL 480 program operations and in designing the methodology for a second phase, should a decision be made to proceed. The pilot effort was reviewed positively, and three additional countries--Haiti, Zambia, and Pakistan--were selected and visited.

The objectives that oriented data collection and analysis for the studies were as follows:

- To assist the Agency for International Development (A.I.D.) and host countries to better understand how PL 480 resources are programmed, including the identification, negotiation, and monitoring of self-help provisions and the mechanisms developed to program and manage local currency sales proceeds
- To provide other USAID Missions and host countries with information that would be useful for replicating successful experiences in the use of Titles I and III assistance as a development "tool," for improving performance, and for identifying likely pitfalls in the process

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<sup>1</sup>A PL 480 impact evaluation series on five countries--Bangladesh, Egypt, Jamaica, Peru, and Sri Lanka--was carried out earlier and published as individual country reports. A general study on the impacts and a summary of the comparative results were published in December 1983. An eight-country study of program loan impacts published in 1970 also has major relevance to the present study.

## Country Selection

The Agency used the following criteria to select countries for the case studies:

- Representation for each of A.I.D.'s major geographic regions
- Programs in operation long enough for substantial data to be available for analysis
- Consensus in the Agency that the programs had been successful
- Programs reflective of different approaches to using PL 480 resources for development
- Programs sufficiently representative that generalizations from the studies would be useful for other country settings

Two other considerations were that the programs have sufficient documentation and that professional people familiar with the programs would be available for consultation.

Although this five-country study series cannot be assumed to be representative of developing countries as a group or of all PL 480 programs, we believe that the conditions and recommendations garnered from this effort have potential application for PL 480 and other types of U.S. program assistance in other country settings.

## Study Approach

Based on the first two pilot case studies, an inclusive set of questions, organized according to the key issues to be addressed, was developed to guide data collection and analysis. Although the questions were to be used as a guide for all of the case studies, it was expected that the nature of each country program and the types of data available about the program would condition the relative weight given to each issue and thus each subset of questions.

Two-to-three-person teams were assembled for each of the five-country studies. In Zambia, the team was complemented by

the presence of Mr. Forest Duncan of A.I.D.'s Bureau for Food for Peace and Voluntary Assistance. The teams started by interviewing personnel in Washington who were responsible for the country programs. Following the interviews, each team spent 2-3 weeks in the country whose program it was evaluating. During the field-works the teams assembled documents on PL 480 and other programs, including cables, agreements, minutes of meetings, and annual and interim reports from the USAID Missions; country planning documents; progress reports; annual agreements and official minutes; available program-related studies; and government statistical and other relevant reports from the host country government. After reviewing this extensive documentation, the teams scheduled meetings with host government officials, other donor representatives, and USAID and U.S. Embassy officials involved in PL 480 and other U.S. assistance programs.

The pilot and Phase II studies were designed to emphasize the process of identification and negotiation of self-help measures and appropriate benchmarks for evaluation of success in carrying out these measures. In each case study, an effort was made to the country development setting and to recount the events and related interaction, as well as to draw conclusions. Much of the information included in the pilot and Phase II studies came from individuals who were interviewed about the process some years after the process had taken place. Hence, recall on the early years was sometimes a problem, but the information was substantially corroborated by documentation in most countries. Generally, oral accounts showed considerable consensus of opinion. The pilot phase studies were published together as a single report covering the Mali and Tunisia conclusions, and individual reports were prepared for the Haiti, Pakistan, and Zambia case studies. (See Appendix for summaries of these case studies.)

### Organization of This Synthesis Report

Section 1 of this report presents a brief overview of the goals and the methodology of the case studies. Sections 2 and 3 discuss the issues related to self-help measures and local currency sales proceeds and present the major findings and recommendations from the case studies that may be useful for future food aid assistance programs. Section 4 examines broader lessons and recommendations concerning the policy dialogue process as it relates to food aid programs. Section 5 contains suggestions for A.I.D./Washington and the Development Coordination Committee for improving the PL 480 programming process. The Appendix presents summaries and lessons learned from the country studies.

The teams found the time available for each country to be insufficient for an in-depth study of the experiences of A.I.D. and the host countries. However, we believe that sufficient rapport was achieved in working with some of the U.S. country teams and host government counterparts to capture some of the nuances of the individual country experiences.

ACKNOWLEDGMENTS

This study was organized and supported by the Agency for International Development's (A.I.D.) Bureau for Food for Peace and Voluntary Assistance. The authors wish to express their appreciation to the many people in the governments of the five countries and the U.S. country teams who were so generous with their time and frank in their discussions with us. We wish particularly to express our appreciation to Judith Gilmore for giving generously of her time to discuss organization and other issues and otherwise assist us and to Mr. Forest Duncan, who, in addition to assisting in the Zambia case study, contributed useful organizational and substantive ideas for the project as a whole and for the final report.

GLOSSARY

AEPRD - African Economic Policy Reform Program  
A.I.D. - Agency for International Development  
DA - Development Assistance  
ESF - Economic Support Fund  
IMF - International Monetary Fund  
PL 480 - Public Law 480  
REDSO - Regional Economic Development Services Office  
USAID - U.S. Agency for International Development

## 1. OVERVIEW

Food aid provided under Public Law 480 (PL 480) by the U.S. Government is one of the major forms of programmatic assistance managed by the Agency for International Development (A.I.D.). Title I of the PL 480 program provides for concessional sales of various commodities to recipient countries that then resell these commodities locally. These sales generate local currencies that are to be programmed to support developmental activities in the recipient country. Title III, authorized by the Congress in 1977, is similar to Title I but provides for the "forgiveness" of the original loan if the recipient government uses the local currencies generated or the commodities themselves to implement programs in agriculture and rural development, nutrition, health, and population planning that are stipulated in the Title III agreement.

In 1984, A.I.D.'s Bureau for Food for Peace and Voluntary Assistance, which manages the PL 480 program in Washington on behalf of an interagency committee, contracted with RONCO Consulting Corporation to carry out a series of case studies of apparently successful PL 480 programs, primarily of Title I programs. The purpose of these studies was to generate conclusions and recommendations that would assist A.I.D. and recipient countries to improve the design and implementation of such programs and to enhance their development impact. An additional aim was to see whether lessons learned from these studies could also provide insights about the better use of other types of program assistance.

Studies were done of the Title I programs in Tunisia, Zambia, and Pakistan and of the Title I and Title III programs in Haiti. Mali's Title II, Section 206 program was also reviewed, because in some ways this program is similar to Title I programs elsewhere. These cases were selected because of the general consensus within the Bureau that these programs had successfully generated policy reforms through the process of identifying and negotiating self-help measures to be included in program agreements, that these programs were relatively long-lived and well-documented, and that they were geographically representative. Also, the USAID Mission in each of these countries was interested in being included in the case study sample.

This report presents the key findings and recommendations of these five case studies regarding the processes of identification, negotiation, implementation, and monitoring of self-help measures, as well as the identification, implementation, and monitoring of programmed local currency sales proceeds. Where appropriate, recommendations are categorized as those applicable to the USAID Mission, A.I.D./Washington, or the Development Coordination Committee/Food Assistance Subcommittee. The report also

considers the host government perspective and includes recommendations for U.S. Government actions that will facilitate more effective participation of host government counterparts in these bilateral processes.

This synthesis report presents key conclusions and recommendations by component of the self-help and local currency programming processes, taking each in turn in the order in which they normally occur. Broader, programmatic recommendations for A.I.D. and the Development Coordination Committee are presented in Section 5 of this report. The executive summaries from each of the five case studies are included in the Appendix to the report. Because each program is fairly complex, we urge interested readers to consult particular case study reports in their entirety (see Newburg and Jones 1986; Duncan et al. 1986; Newburg et al. 1985; and Morton et al. 1985).

## 2. SELF-HELP MEASURES

### 2.1 The Identification Process

Crucial to program success is the identification of appropriate self-help measures for inclusion in bilateral PL 480 agreements. Self-help measures are the actions the host country government agrees to undertake to improve its own developmental performance. Increasingly, with A.I.D.'s emphasis on policy reform and policy dialogue, these measures deal with macro-economic policy issues or with significant policy issues relating specifically to the performance of the country's agricultural sector. Sometimes, however, other sectors are included, because U.S. legislation embodies a number of developmental purposes and concerns aside from agriculture.

Identification of self-help measures occurs in a number of ways. Guidance may come from the Development Coordination Committee through A.I.D./Washington and the U.S. Department of Agriculture (USDA) to the field Mission (Haiti); the U.S. country team, including the Embassy, may have already identified key policy agenda items that are cast as self-help measures to be negotiated under the PL 480 program (Tunisia, Zambia); the USAID Mission, on the basis of its own sectoral or multisectoral analysis, may identify a set of policy measures that should be undertaken to improve agricultural production and productivity or other host government programs (Zambia, Pakistan, Haiti, Tunisia). In some cases, such analyses are carried out in collaboration with the host government ministry or another entity concerned with the relevant sector.

Generally, the case studies show that the most successful programs are those in which the self-help measures have the following characteristics:

- Are based on thorough joint U.S. Government/host government analysis of underlying sectoral constraints and policy parameters, which in turn guide the policy dialogue that takes place during negotiation of a PL 480 agreement
- Draw heavily on host government development plan objectives and targets for which support and momentum already exist
- Are limited to a few important and logically consistent policy-related goals for which easily measured benchmarks are provided
- Stick with essentially the same set of self-help measures for several years so that U.S. Government support for them is underlined and the host government has time to carry them out effectively

All these characteristics are more readily achieved in cases in which the U.S. Government has demonstrated its confidence in the given program by making a multiyear commitment to it, as was the case in Mali and Pakistan. Even where Washington is not willing to commit funds on a multiyear basis, the joint development of a multiyear program strategy tends to have the same beneficial result, as was previously true in Tunisia. A mutually agreed on multiyear program strategy will work as long as funding levels are not drastically reduced over the strategy period, thus undercutting local USAID Mission assurances of good faith. Conversely, where there is a multiyear funding commitment but no mutually agreed on multiyear strategy, self-help performance may be less than would otherwise be the case, as in Pakistan, where the overriding concerns of both the U.S. and Pakistani Governments are geopolitical.

## 2.2 The Negotiation Process

Various negotiation approaches are represented by the five cases. In Mali, the U.S. Government was represented almost exclusively by the Ambassador throughout the negotiation of U.S. involvement in the multidonor Cereal Marketing Restructuring project to which Title II, Section 206 contributed. In Haiti, A.I.D. took the lead both for Title I and Title III, involving

private-sector Haitian technical analysts in sector reviews leading to policy reform self-help measures that were iteratively discussed with the Government of Haiti. Tunisia's multiyear strategy document was prepared by an American consultant in close association with USAID Mission staff and host government counterparts in the Ministry of Agriculture. In Zambia, which had the smallest U.S. Mission, the Mission Director handled the negotiation process for several years, but in program design he was assisted by personnel on temporary assignment from A.I.D./Washington and from the USAID/Nairobi Regional Economic Development Services Office (REDSO), who also worked on a related commodity import program design and evaluation. In Pakistan, where the food assistance program is 34 years old, each new annual negotiation may be somewhat pro forma, but the process has involved the USAID Mission Director's Office, the Program Office (which manages PL 480), and the Agriculture Office. The Agriculture Office has made an important contribution to the identification and negotiation of self-help measures, even though the leadership for the negotiation came from the Director and Program Office.

Who should be involved in the negotiation process at a particular time depends largely on the size of the U.S. country team and on the prior involvement of its members in identifying the self-help measures. At the same time, from the host government side, who should be involved will depend on the structure and depth of the host government organization. For example the civil service in some countries is more developed than it is in others. Also, whether a line technical ministry, such as the ministry of agriculture, or a central ministry, such as the ministries of planning, finance, or foreign affairs, is involved makes a difference in the negotiation process. These choices also depend on other relationships between the U.S. team and the host government, as well as on the team's assessment of which host government entity has the most clout for negotiating and implementing self-help measures.

Generally, the case studies demonstrate the following:

- Setting the stage for the negotiation is important and can best be done by technicians during the analysis and identification phase.
- Negotiations proceed best when the principal U.S. officials involved are perceived to be knowledgeable about the intricacies of host government policies and problems, as well as its development history and trajectory.
- Negotiations are most successful and least protracted when proposed self-help measures and other features of the agreement are discussed in advance with host govern-

ment officials and when informal consensus is reached, despite the tendency to consider negotiating instructions from Washington as confidential.

- Additional momentum for agreement is created by host government perception that the United States takes the process seriously but will not react punitively if best efforts at meeting benchmarks fall somewhat short of the mark.
- A history of frank bilateral discussions on other programs or projects helps to facilitate negotiation of PL 480 agreements, even when some of the self-help measures require the host government to make very hard choices.
- When self-help measures that require "sacrifices" are backed up by jointly programmed local currency sales proceeds, both negotiation and subsequent implementation tend to be more successful.

There is one caveat: when donors do too much to minimize such sacrifices, as may have been the case in Mali, the host government may actually become less inclined over time to take effective action. In other words, there must be a balance between persuasion and "leverage" in the stance and actions of the U.S. Government as a party to the negotiation process and, especially, as implementation proceeds.

### 2.3 The Implementation Process

Policy shifts and reforms do not take place overnight, and the impact of such reforms may take years to be realized. For example, although the increasing profit margins for private-sector vendors of fertilizer in Tunisia have shown results fairly quickly in terms of increased private-sector sales, the ultimate impact on increased agricultural production will inevitably take longer to emerge. Also, liberalizing the coffee market in Haiti by reducing the coffee tax on a multiyear basis may or may not increase tree crop production and thus may or may not decrease environmental degradation on Haiti's hillsides. And finally, whether the introduction of producer price incentives in Zambian agriculture increases production depends on other microeconomic and macroeconomic variables as well as on the social and political factors beyond the control of either the Government of Zaire or the U.S. Government.

The interrelatedness of policies and their potential (and actual) impacts and the time frames in which policies are likely

to take effect must be recognized when PL 480 programs are being designed and negotiated. Otherwise, even the most earnest and skilled host country government may not be able to obtain the results the self-help measures are designed to achieve in the time allotted. Thus for successful implementation of self-help measures, realism is probably as important as is good underlying analysis.

Often, the U.S. Government role in the implementation of self-help measures is limited to observation or monitoring, and there is nothing that can be done until the host government self-help report is received at the end of the agreement year. However, in some of the cases studied, the USAID Mission took a more active approach to monitoring by involving staff or consultants in joint evaluations 6 months or so into the agreement year. When such evaluations showed that the host government was having difficulty meeting self-help measure benchmarks, mid-course adjustments could be made to help solve the problem. Thus timely adjustments not only help both parties save face, which is not irrelevant, they are also likely to improve self-help performance.

#### 2.4 Case Study Findings and Recommendations

In Zambia, the same self-help measures were emphasized in both commodity import program and PL 480 agreements. Similarly, in Tunisia, at least some overlap or complementarity exists between the policy reform self-help measures and related local currency expenditures programmed under PL 480 and the USAID Mission's project and program portfolio. This kind of integration can significantly increase the ability of the host government to mobilize the political and financial resources necessary to carry out difficult policy reforms. Such integration may also facilitate monitoring by the USAID Mission, since its monitoring of the regular project portfolio will enable the Mission to flag performance problems or improvements related to self-help measures under PL 480, as occurred in Haiti.

In Pakistan, self-help measures were directed at encouraging liberalization of policies on edible oils, but the USAID Mission was not permitted to directly support oil seed production in Pakistan because of domestic pressure placed on Congress and the USDA by representatives of U.S. soybean growers. These pressures probably had a limiting effect on what could be gained in the policy area, even though the Government of Pakistan has recently announced a policy shift. Thus, it is important to assess arguments against an activity that might enhance self-help performance under PL 480 in terms of potential cost to the success of

the PL 480-supported policy dialogue, as well as in terms of other substantive or political factors.

For identification, negotiation, implementation, and monitoring of self-help performance under PL 480 agreements, there must be a balance between the USAID Mission and host government human resource commitments. On the whole, performance on self-help measures seems to be enhanced in cases in which there is sufficient attention from Mission staff to encourage commensurate attention from the host government. However, such resource commitments may pose a problem for small Missions, especially in the areas of preidentification analysis and post-negotiation monitoring. In such cases, creative use of a combination of consultants, personnel on temporary assignment, existing direct-hire staff may be required for adequate performance. Although such arrangements are crucial for smaller Missions, they may even be required for larger Missions.

The recommendations that emerge from the case study analyses of the implementation and monitoring of self-help measure are as follows:

- Where possible, A.I.D. Foreign Service Nationals with long experience in the PL 480 process should play a major role in monitoring and evaluation, as was successfully done in Haiti and Pakistan.
- Where direct-hire staff resources are insufficient on the U.S. or the host government side, temporary assignment of U.S. staff or the hiring of private sector consultants can be funded on a continuing basis to assist in the monitoring and evaluation of self-help implementation by the host government, as was successfully done in Tunisia and Zambia
- Integration of self-help measures under PL 480 and the policy implications of the Mission's other projects and programs should be achieved where possible to facilitate host government performance on policy reform in a particular sector.
- Other donors must be encouraged to assist the host government in achieving PL 480 self-help objectives when possible, as was done in Mali with the multidonor cereals program.
- When necessary, the host government officials responsible for reporting on self-help measures should be assisted in preparing more substantive reports that more clearly reflect performance on self-help measures.

Sometimes, staff in the line ministries responsible for implementing self-help measures do not have a clear idea of what is required for preparing such reports. Improved guidance designed specifically for host government officials could help resolve such problems.

- Timing of host government reporting on self-help performance should, when possible, be adjusted to fit the schedule of the host government rather than to meet the scheduling convenience of the U.S. Government. Similarly, timing of reporting should relate to issues in question in the particular agreement--for example, reporting should coincide with the agricultural calendar or the host government fiscal year if the issues involved are most affected by these timetables.

### 3. PROGRAMMING AND MANAGEMENT OF LOCAL CURRENCY SALES PROCEEDS

#### 3.1 Background and Issues

Recent discussions of A.I.D. policy regarding local currency sales proceeds from PL 480 and local currencies generated from other A.I.D. programs have led to some shifts in the Agency's policy stance. Greater attention is being given to local currency programming because it is anticipated that annual expenditures of local currency sales proceeds during the 1985-1987 period will be about \$2 billion. (This estimate includes local currencies generated by Economic Support Fund and Development Assistance programs and projects and by PL 480 sales proceeds.) With likely declines in the availability of future Development Assistance funds because of Gramm-Rudman, PL 480 local currency programming will probably increase in importance.

The five case studies provide supporting evidence for some of these new policy orientations, as well as data that have additional implications for programming and management of local currency sales proceeds. Here we are less concerned with the impact of local currency proceeds once these are attributed or "micro-programmed" than with the programming and attribution processes. We also make the distinction between attribution or microprogramming, which logically occurs first (although this is not always the case, as will be seen) and the management of local currency sales proceeds.

The March 1986 Administrator's Local Currency Policy Review (A.I.D. 1986) should result in considerable policy clarification and better communication of the policy to the field.

### 3.2 Attribution and Programming of Local Currency Proceeds

In four of the five PL 480 programs studied, the U.S. Government has been closely involved in either the attribution of local currency sales proceeds or in what is now being referred to as the microprogramming of such funds. This is impressive since A.I.D. guidance on programming of local currency sales proceeds has varied during the course of these programs. Until recently, A.I.D.'s view was that, under Title I at least, the local currency proceeds belonged to the recipient country, not to the U.S. Government. Thus, the USAID Mission could participate only in the programming of these funds. Apparently, A.I.D./Washington's view is now changing toward a stress on joint microprogramming of local currency funds because these funds are now considered to belong to the recipient country only in the most legally technical sense. The consensus of A.I.D. senior management seems to be that A.I.D. field staffs should take local currency funds as seriously as any other development funds.

### 3.3 Special Accounts

Another key issue that has received some debate is whether local currency proceeds from PL 480 commodity sales should be placed in "special accounts." Those who favor this approach believe that special accounts will make accountability easier and will enhance the likelihood that such funds will actually be expended on mutually agreed on objectives. Those who reject the special account approach indicate that considerable good will may be sacrificed by trying to force an unwilling recipient government to establish such an account and that the anticipated gain in accountability or measurable additionality will not be commensurate with this loss. That is, placing funds in such an account does not guarantee what the funds will be spent on, because in a real sense all funds available to a government are fungible. The case studies seem to demonstrate that it is less the special account that helps ensure appropriate use and accountability than it is the quality of the negotiation process and the joint programming process for local currency sales proceeds, followed by consistent USAID Mission staff monitoring and management of local currency use.

### 3.4 Additionality

Related to the special account issue is the broader question of the additionality requirement. "Additionality" may be defined as a "new relative expansion of important development-oriented activities and/or...appropriate policy reforms above and beyond what otherwise would have occurred" (A.I.D. 1986). The current guidance on local currency programming, Policy Determination 5, indicates that the additionality requirement applies not only to the substance of self-help measures but also to the programming of local currency sales proceeds. A more recent assessment of the relevant legislation by the A.I.D. General Counsel indicates, however, that the requirement does not apply to local currency uses. The applicability of additionality to local currency uses was an issue in the Haiti program.

### 3.5 Timing

Timing of actions that generate and determine the amount of local currency proceeds available is another important issue affecting programming and management of these proceeds. There are several distinct stages in the PL 480 process at which delays may occur that will ultimately affect the programming, management, and use of local currency proceeds. First, there is the timing of approval of the commodity level for a given program. Next is the timing of the purchase of these commodities, which affects their purchase price in the United States. Then, there is the timing of the sale of the commodities in the recipient country, which may have an effect on the total amount of local currency proceeds generated, as well as on when and how the funds will be used. This, in turn, has implications for inflation.

### 3.6 Management of Local Currency Use

Managing the use of local currency sales proceeds is the last intervention point in the process, except for postauditing. In most of the cases studied, A.I.D. staff did not really attempt to manage local currency sales proceeds in the sense of exercising direct control. The exception is the case of Haiti, where direct control was necessary because most of the local currency sales proceeds were used as Government of Haiti counterpart funds for the projects in the USAID Mission portfolio and because Government of Haiti management capabilities were too weak to do the job adequately. The study showed that the additional burden placed on USAID Mission staff by this de facto obligation to

manage local currency proceeds was considerable, even though the Food for Peace staff in the Mission included a full-time Foreign Service National officer whose primary responsibility was monitoring the use of local currency sales proceeds.

As is the case with programming, a number of governments feel that having A.I.D. too closely involved in the management process for local currency proceeds constitutes an unwarranted and deeply resented intervention in the host country's domestic affairs. Thus, the Mission in Pakistan maintained a low profile. Moreover, local currency proceeds are more often attributed against Government of Pakistan budget categories than actually microprogrammed and managed.

From the host government point of view, managing local currency proceeds can be extremely time-consuming. At one point, when the Title III program was being designed in Haiti, the Government of Haiti seemed willing to have the USAID Mission take complete responsibility for the process. In Tunisia, it has been difficult for Ministry of Agriculture officials to find the extra time required to ensure that local currency proceeds programmed for particular purposes (agricultural research, improved extension, and the like) had really become available. Partly, the problem results from the fact that it is the ministry of planning, not agriculture, that is responsible for approving and monitoring these kinds of funding allocations and expenditures. Partly, the problem results from the complex and slow-moving bureaucratic processes typical of developing country governments, which make it virtually impossible to ensure the timely availability of funds for research, for example.

This is why in some countries studied, technicians in key ministries view PL 480 local currency proceeds as fictional funds. They believe that such funds are never really included in the budget or that they are never delivered to the end-user, or if they are delivered, they are done so in lieu of other funds that were also anticipated. The truth seems to be that most end-user agencies are not clear on the impact of the allocations of PL 480 local currency proceeds on their total budgets.

Solving these management problems requires a certain amount of creativity on the part of the U.S. country team and the host government ministries involved in the PL 480 programs. This process takes time, however, and has staffing implications for both the ministries and the USAID Mission.

### 3.7 Case Study Findings and Recommendations

In Tunisia until 1983, local currency sales proceeds were attributed to various parts of the Government budget after the fact. More recently, microprogramming of such funds has been carried out as part of the annual negotiation process, and procedures have been put in place to ensure that such funds, once programmed, actually are available to be expended by the Tunisian entities in question. Similarly, in Haiti, both under Title I and now under Title III, Mission staff have been closely involved in the entire local currency process, especially because a large proportion of the local currency sales proceeds are used as host government counterpart funds to support Development Assistance-funded projects. This heavy A.I.D. involvement in the microprogramming process has had important staffing implications, as would be the case elsewhere if a similar level of effort were made to program and manage local currency proceeds in support of a medium-size Development Assistance program.

The PL 480 program in Haiti also indicates that improvements may be required even when there is a special account for local currency sales proceeds. Thus, during 8 years of the Title I program, USAID Mission staff worked hard to ensure that local currency proceeds actually got into the account quickly and so were available for joint programming and for use in connection with project activities on a relatively timely basis. Although there are still some problems, considerable progress seems again to have been made under the new Title III program.

In Zambia and Pakistan local currency proceeds are available both from the sale of PL 480 commodities and from the commodity import program. In both countries, the magnitude of local currency generations available for joint microprogramming is such that the U.S. Government is at risk of becoming overly involved in the respective countries' internal budgeting processes. In each case, mutual U.S. Government and host government accord is reached on local currency proceeds uses after the annual PL 480 agreement has been signed. In Pakistan, this is usually done within 2 weeks of agreement signature, whereas in Zambia, there may be time lags between the signing of PL 480 and commodity import program agreements, the generation of local currency proceeds, and their subsequent use.

In the case of the Pakistan program, and to some extent the programs in Mali and Zambia, the timing of the signing of the agreement has adversely affected the price paid by the U.S. Government--and thus ultimately the amount to be reimbursed by the recipient country--for the commodities provided under PL 480. Long delays in approval of annual proposals in Washington also

have other adverse effects, including disruption of the momentum of the policy dialogue and commensurate delays in the programming of local currency sales proceeds. When such delays occur, it is often too late for local currency proceeds to be programmed appropriately, given the host government's budget approval cycle. This has been the case in Tunisia and Haiti. Given current A.I.D. policy that "A.I.D. involvement in programming local currency is not an end in itself, but rather a tool for structuring an overall host country budget that represents a sound, development-oriented allocation of budgetary resources," it is particularly unfortunate when PL 480 programming is out of phase with the host government budget process (A.I.D. 1986). The Policy Review paper also noted that

Agreement on the use or general allocation of local currency proceeds needs to be reached at the same time as negotiation of the overall commodity agreement: otherwise, subsequent efforts to influence or even effectively audit local currency use (e.g., via use of special accounts) are easily frustrated and can require the dedication of significant A.I.D. direct hire resources (p. 3).

Overall, the case studies yield the following recommendations on the programming, monitoring, and management of local currency sale proceeds:

- Large amounts of local currency proceeds can cause programming problems, especially for the host government. Too much A.I.D. involvement in the process can create resentment and have adverse effects on the policy dialogue. In such cases, A.I.D. might propose that all but "x" million of the local currency proceeds go into the country's development budget without further programming involvement on its part, while the rest be jointly programmed for mutually agreed-on priorities that would not otherwise be adequately funded.
- Management of local currency proceeds should be kept as simple as possible, as is the case in Pakistan, where large amounts of such funds are involved. Sensitivity should be shown to the reporting burden placed by other donors on the host government as well as by A.I.D., and assistance should be provided, by consultants if necessary, to enable the host government to report properly on the use of local currency funds.
- The U.S. Government, through its country teams, should attempt, where possible, to adapt its reporting requirements to the host government's accounting and budgeting

procedures. This includes both the timing of reporting requirements and the format in which data are required.

- Early joint programming of legal currency proceeds is preferable to leaving such programming until after the negotiation of the agreement. Early joint programming is preferable because the U.S. team has the greatest "leverage" during the negotiations of the resource transfer, when the commodity financing level is being determined. After that, it is the host government's anticipation of the next resource transfer, not the existence of the present local currency sales proceeds, that gives the U.S. team increased influence. Also, the U.S. team may have some influence at the level of the end-user host government agency if it is clear to the agency that it will receive additional or more flexible resources as a result of PL 480 local currency allocations.
- Using local currency proceeds to meet the 25-percent host government counterpart requirement for Development Assistance-funded projects, as in Haiti, may constitute a liability because of host government management problems and complex approval requirements, which result in implementation problems. However, local currency proceeds can be used to meet the host government counterpart requirements if a management system is worked out with the host government to ensure that funds are available when needed for project implementation.
- More creative use should be made of local currency proceeds to support other donor efforts that will reinforce the policy reform goals that A.I.D. is also seeking to achieve. Such uses of local currency proceeds can be quite successful, especially where the amount of A.I.D.-generated local currency proceeds is relatively small. The case studies show that the fear that "commingling" such funds with other funds will reduce accountability or additionality is largely unwarranted.
- Special accounts should not be required simply on the assumption that they will greatly facilitate additionality or accountability, especially given current A.I.D. guidance indicating that additionality is not a requirement for local currency use. What is more important is the quality of local currency use, monitoring, and overall management; a special account is only one tool that may improve this process.

- USAID Missions should make a greater effort to program local currency proceeds to help cover the costs of implementing self-help measures, including assistance to the agency through which implementation will occur.

#### 4. BROADER POLICY DIALOGUE LESSONS AND RECOMMENDATIONS

In examining the process of negotiating self-help measures and the related programming of local currency sales proceeds, we gathered much data on the policy dialogue process and the effects of PL 480 negotiations and implementation on this process. Thus, although we did not examine the impact of PL 480 programs per se, since such a study had been done extensively in another A.I.D.-funded case study series, we did examine the impact of these five programs on the policy dialogue processes.

Our conclusions, although not startling, may be helpful in the Agency's general attempt to improve the quality and results of policy dialogue, both in the five countries reviewed here and elsewhere.

##### 4.1 Continuity

The Pakistan case study, which examines the longest (34 years) and currently one of the largest (\$50 million per year) of the food aid programs shows that successful policy dialogue sometimes requires a low-key approach by U.S. officials. Over the years, good relations have developed and been maintained between U.S. and Pakistani agricultural technicians. Discussions of agricultural policy and technical issues have been continuous at this technical level, and U.S. funding levels and contributions to the agricultural sector have been very large on a cumulative basis. On the whole, over the life of the program, U.S. advice on agricultural issues has been highly valued. There is evidence that, historically, many of the Pakistani Government's policy improvements have been based on, or have at least been closely related to, suggestions made by USAID Mission personnel.

In Zambia, where the U.S. aid presence is more recent than that in Pakistan, continuity in U.S. representation has also been beneficial in helping the Government undertake very difficult policy reforms with support from the PL 480 program. PL 480 constituted about one-fourth of all U.S. Government economic assistance to Zambia until FY 1985; thus the comparative magnitude of the program was significant.

The Zambia study also found that parallel continuity in policy-oriented self-help measures was probably essential to the policy dialogue and reform processes. The U.S. assistance program has focused heavily on the development policy theme, particularly on policies affecting agriculture and food. The emphasis of U.S. assistance has been on producer incentives and production, imports and the balance of trade, subsidy costs, and internal economic stability. Because the underlying analysis of these issues has been good and iterative, there is a substantial body of documentation on which to base policy and program recommendations.

In Tunisia, continuity has also been important for the influence of the PL 480 program on successful policy reform. Here, the major mechanism for continuity has been the development of a multiyear strategy document. This document, jointly developed by USAID Mission staff and key consultants, has served as a basis for annual agreement negotiations, ensuring considerable continuity of self-help measures and reinforcement of policy objectives by U.S. officials at the technical and at the senior policymaking levels. The second multiyear strategy document, which was recently prepared, reinforced the sense of continuity and purpose, as well as the sense of continuing U.S. Government interest in program results.

For Tunisia, this process has been especially important because PL 480 resources available to that country have been diminishing. At the same time, Tunisia has been encountering significant economic problems, while the importance of Tunisia's relations with the United States in terms of broader geopolitical considerations has become highlighted. In such circumstances, it would normally be very difficult to pursue a policy dialogue with any credibility. Fortunately, the continuity represented by the strategy development process and the periodic return of the key consultant to work with the Government of Tunisia to evaluate progress and reassess priorities and policy objectives have enabled the dialogue to continue successfully.

#### 4.2 Influence, Leverage, and Conditionality

In Haiti, the policy dialogue aspect of the PL 480 program has been visible from the time the USAID Mission there began to design a Title III program. The design, negotiation, and approval process for this program took 3 years, partly because of Washington-based delays and partly because of the changes in key Government of Haiti staff. Staffing continuity on the A.I.D. side was particularly important, given the instability of the tenure of Haitian officials during this time period. Staff con-

tinuity was achieved by keeping management responsibility for the process largely in the hands of one senior officer, complemented by the analytical and technical support of a large number of Haitian private consultants, and by creative use of Foreign Service National staff resources.

Despite a crumbling internal situation, the Government of Haiti performed relatively well on the self-help measures in the first year of the Title III program. This relative success was achieved in part as a result of USAID Mission efforts to maintain a consistent awareness of what was happening in the Haitian Government and in part as a result of the magnitude of the U.S. Government resources being programmed for Haiti, which meant that the Mission staff were able to exert a considerable amount of influence on Government of Haiti decisions prior to the start of Title III. The USAID Mission did not always choose to exert this influence in a punitive way, however. Rather, the Mission took the approach of concertedly rewarding good performance on the policy front through increases in funding levels under Title I. A complementary strategy of reducing Development Assistance project funding to the Government by switching resources to private voluntary organizations provided the proverbial "stick."

In Mali, A.I.D. benefited from the existence of a multidonor effort to influence the Government to liberalize its cereals marketing policy. This effort had been ongoing for a number of years before A.I.D. began to contribute to it concretely in the form of PL 480 Title II, Section 206 commodities. However, the U.S. Government had been represented on the multidonor group for some time before the initiation of the PL 480 program. Membership in this group enabled the U.S. Ambassador to have greater influence in the policy dialogue arena than what might otherwise have been possible, given U.S. Government-Government of Mali relationships and the level of U.S. Government assistance to Mali.

Similarly, U.S. participation in the multidonor group increased the credibility of the group with the Government of Mali, especially because the group's negotiating strategy was based on unanimity. Presenting a united front to senior officials of the Government of Mali seems to have been a key to the success of the program so far. Additionally, the ability of the group to take into account the political realities faced by the Government, and to allow delays in meeting the most stringent and politically expensive of the liberalization targets while other targets were being met, was probably also a key to keeping the program going.

This kind of flexibility and the capacity to take clearly into account the realities faced by the host country government in attempting policy reform seem to have been critical to the

success of all the cases reviewed. Influence, rather than leverage or conditionality, is the main characteristic of policy dialogue as it takes place in the PL 480 context. As noted elsewhere, PL 480 resources must be approved, agreements signed, and commodities loaded within a given fiscal year. Thus, they cannot be released in tranches as can other U.S. assistance resources. As a result, the U.S. Government's policy reform efforts have to be accepted before the resources are provided.

#### 4.3 Institutionalization

Institutionalization of the policy dialogue process is another issue examined in these case studies. Most of the programs reviewed have been in existence for a relatively long time, with direct U.S. Government participation in the Mali program an exception. Multiyear commitments by the U.S. Government to particular programs, as in the case of Pakistan for example, do not obviate the requirement for the annual self-help measure reporting and negotiation. And, of course, annual negotiations take place where no multiyear funding level has been achieved. What seems to affect institutionalization, then, is continuity of understanding and agreement terms from year to year, a shared understanding of the policy aims of the food aid program by both sides, and continuity in the staff representing each side. In Tunisia and Haiti, preparation of multiyear strategy documents has helped to clarify the policy reform aspect of the Title I and Title III programs, respectively.

Key lessons learned about policy dialogue in the PL 480 context are as follows:

- A mixture between informal and formal discussions and negotiations and a reliance on relationships based on influence rather than leverage and conditionality have led to successful policy dialogue in all five cases.
- Where local currency proceeds have been jointly programmed to ease the host government's burden in implementing stringent or politically difficult self-help measures or policy reform, successful performance has been more likely.
- Continuity in the policy reform goals sought through the identification and negotiation of self-help measures in PL 480 agreements is a key to successful performance, as are clearly stated self-help measures, with easily measured benchmarks.

- Similarly, sticking to a few key policy provisions or goals, rather than trying to include many and to cover several different sectors, seems more likely to yield success.
- Involving host government as well as U.S. technicians in the policy dialogue from the beginning has proved important to the negotiation process. Sparing senior officials until later in the process increases their efficacy and helps maintain the substantive focus of the self-help measures.
- Integration of PL 480 self-help measures with policy-related components of other A.I.D. projects and programs in a given country should be attempted because such integration can greatly assist the dialogue and subsequent self-help performance by the host government.

#### 4.4 Specific Policy Impacts

The scope of work for these case studies did not include an assessment of the impact of the respective PL 480 programs, either on policy or on agricultural production, population growth, or any other sector or issue to which self-help measures may have related. In part, assessment of impact was excluded because A.I.D. had already funded a series of case studies of the impact of selected Title I programs. Also, as was highlighted by the Zambia team, cause and effect between self-help provisions or other commitments contained in agreements and host government action are very difficult to establish even by those in a position to observe events directly. Determining the directions of cause and effect and of intervening variables becomes even more difficult in later years, when most of the principal actors are no longer around.

Nevertheless, in most of the five cases, an attempt was made to examine the record and to gauge the congruence between host government policies and the commitments these governments had made in signing PL 480 agreements. In some cases, it was also possible to document instances in which U.S. aid had been supportive of policy-related actions by the host government, regardless of the source of impetus for the new policy or other reform.

For each country case, we found that there has, in fact, been considerable congruence between the self-help measures included in agreements over time and the policy action taken by the host governments in question.

Thus, in Tunisia over the past 7 years or so there has been an impressive reorganization of the fertilizer subsector, a recent reorientation from state intervention toward private sector and cooperative activities and attempts at improving the distribution and management of agricultural credit. Major local currency support was also given to private farmer service cooperatives. It seems fairly clear, given the lack of similar shifts away from state intervention by the Government elsewhere in the agriculture sector over the same period, that there has been success in the sustained policy dialogue represented by the PL 480 negotiation and evaluation process. It should also be noted that the Government of Tunisia spent far greater amounts of funds implementing these changes--especially in fertilizer production and distribution--than were ever forthcoming from PL 480.

In Mali, there was a multidonor effort to help the Government to liberalize cereal marketing, reduce parastatal costs and involvement, and increase producer incentives through price reform. In addition, the donors pressed for commensurate increases in prices to urban consumers, including civil servants, who buy cereals at subsidized prices. Government action on the first two policy shifts, which were supported by the attribution of local currency sales proceeds from all food aid donors, was quite good. On the consumer price subsidy issue and the liberalization of paddy marketing, progress was slower. The multidonor group, however, took into account the Government's success in making politically less onerous policy shifts by showing tolerance for its delays in making policy changes that had the greatest political risk. However, there was some indication that to the extent that the multidonor food aid group was believed to be "taking care of" these policy reforms, the International Monetary Fund (IMF) and the World Bank could decrease pressure on the Government of Mali toward similar reforms.

Haiti presents a complex case. Under Title I, a fairly broad range of self-help measures relating to agriculture was negotiated. These measures included increased provision of agricultural credit, training, and extension services and expanded availability of production inputs. By 1979, more specific self-help measures were also included, particularly a measure to implement a program for the eradication of swine fever by June 1983 and to provide replacement stock by 1985.

On the policy front, the 1979 agreement also included self-help measures committing the Government of Haiti to investigate its taxing and pricing policies as they affected various agricultural products, especially coffee, to ensure that "these policies do not serve as disincentives to production," with a report on options due by 1983. Another self-help measure provided for reform in tax and customs administration. Partly as a result of

A.I.D.-provided technical assistance, the tax and customs reforms were well in hand by 1985--although somewhat behind schedule. These self-help measures were included, in appropriately modified form, in the 1985 Title III agreement. Because debt forgiveness under Title III is conditioned on performance on self-help measures and because a long and inclusive negotiation and dialogue process had been instituted between 1982 and 1985, the Government of Haiti was more likely to take performance self-help measures more seriously under Title III than it had under Title I.

The USAID Mission comments on the evaluation of the first 6 months of Title III implementation indicate that "the performance of the Government of Haiti in implementing the program has been satisfactory" (unclassified A.I.D. cable 1041, Port-au-Prince, February 1986). Improvements had been made in performance on 9 of the 17 self-help measures that had been flagged in an earlier joint review. With benefit of hindsight, it is clear that the Government of Haiti was on its way to collapse at that time. Thus, it is impressive that a number of the policy reform steps called for were, in fact, being taken before that collapse occurred.

The case of Zambia is also somewhat complex. As has been noted, A.I.D. support for self-help measures in agreements with the Government of Zambia came through two channels--PL 480 and the commodity import program. The study team notes that extensive documentation demonstrates a very high level of congruence between Zambian performance and commitments contained in agreements between the U.S. Government and the Government of Zambia. The United States has applied its resources in support of measures to improve research, extension, and planning capability; reduce levels of spending on food subsidies, especially consumer subsidies; improve price incentives for farmers; increase private enterprise involvement in marketing; reduce input subsidies; reduce or eliminate spending on subsidies for parastatals involved in marketing and transport; and reduce the domestic budget deficit and narrow the balance of payments gap.

Disregarding the question of which reforms, if any, can be shown to originate with the PL 480 negotiations, it is clear that the United States has been extremely supportive of Zambian efforts to recover from the disastrous economic problems resulting mainly from international events beyond its control. By 1985, the Zambian economic crisis was so critical, despite U.S. Government support to improved policy actions under PL 480, that the World Bank and the IMF took the lead in negotiating an intensified economic reform program. The United States provided major bilateral support to these additional initiatives, which involve the potential for considerable political and social unrest.

For Pakistan, the history of the PL 480 process is very long, and as in the other cases, PL 480 was only one of a variety of channels through which the U.S. Government attempted to affect host government policy. Interestingly, at the time the case study was carried out--January to February 1986--there did not seem to be as much congruence between recent self-help measures and recent Government of Pakistan policy reform as there should be, given the magnitude and longevity of the Title I program (approximately \$2.6 billion over 34 years). Then, in April, the cabinet of the new civilian government announced several important policy measures to reduce controls on the vegetable oil and vegetable ghee industry, which the U.S. Government had long encouraged under PL 480. These measures include the following:

- Removal of price controls on vegetable ghee and edible oil
- Elimination of restrictions on private sector imports of palm and vegetable oils
- A shift to a variable import duty that would bring oil import costs in line with subsidized domestic prices
- Removal of production restrictions on private ghee factories, permitting them to produce at full capacity rather than at one-half to one-third capacity as before

According to the USAID Mission in Pakistan, "These changes are a substantial liberalization of the economy and, we believe, the partial result of three years of policy dialogue in the PL 480 program" (A.I.D., unclassified cable 08133, Islamabad, April 1986). However, the cable also indicates with a certain frankness that the timing of the reform announcement was probably carefully calculated to correspond with the upcoming donor consortium meetings in Paris and that while congratulations to the Government of Pakistan were in order, several difficult agricultural policy reforms remain to be undertaken.

These five cases do show a congruence between policy agenda items included as self-help measures in PL 480 agreements and subsequent host government policy reforms. In all of the cases, however, there have been at least several intervening variables, both internal to the country and external--for example, the draught in Mali and plunging copper prices in Zambia--which have been critical in influencing host government decisions to make hard policy choices. Therefore, any U.S. Government claims to success through policy dialogue related to the PL 480 process should be made with care. In some instances the policy reforms called for and supported by the U.S. Government may have serious social and economic side effects. Claiming too much influence on

the process may well be counter productive in terms of overall U.S. Government-host government relations.

The five case studies demonstrate that the content of self-help measures is often similar among the countries--for example, producer price incentives, reduction of input and other subsidies, increased private sector involvement in agricultural marketing. These issues, not surprisingly, correspond to the general policies currently being supported by the U.S. Government, specifically by A.I.D.

However, the differences in self-help measures from program to program are perhaps as instructive as their similarities. Self-help measures are, in most instances, carefully tailored to the existing policy environment in the host country in question and to an evolving policy reform context supported by other donors and by some elements in the host government itself. Self-help measures are not simply a set of standard prescriptions for economic reform applied across the board. The extent to which these measures have been appropriately tailored to the policy context and country realities at hand may be one of the key indicators of a successful PL 480 program.

##### 5. PL 480 PROGRAM IMPROVEMENTS: SUGGESTIONS FOR A.I.D./ WASHINGTON AND THE DEVELOPMENT COORDINATION COMMITTEE

The PL 480 program is governed by a U.S. interagency committee comprising representatives of various agencies with differing and often conflicting agendas. Members of the Food Assistance Subcommittee of the Development Coordination Committee also have many other responsibilities, and although they try, they cannot realistically deal with all the nuances of each PL 480 program. Because of the competing agency agendas and objectives, approval processes and resulting negotiating instructions are sometimes considerably delayed. Some agencies insist on self-help measures that meet their own priorities but that the U.S. country team may consider irrelevant or even potentially detrimental. Formal and informal guidance from the various agencies involved can confuse the negotiation process and weaken the stance of the U.S. country team.

Meanwhile, the Congress, many of whose constituents are interested in the PL 480 legislation, has amended the program fairly frequently, adding new requirements, purposes to be served, or criteria for use of funds. Inevitably, this introduces new rigidities that weaken one of the greatest virtues of the program, namely its flexibility in enabling meaningful negotiation in the context of the individual country agreement.

Thus, it is not surprising that one of the main findings of these case studies is that some U.S. field staff are confused about what constitutes A.I.D.'s policy regarding the programming and use of local currency sales proceeds. A.I.D. communications to the field have not been assembled in one set of guidance materials, and, in addition, they are somewhat contradictory. Thus, a particular U.S. country team in a joint effort with host government counterparts may be trying hard to "follow the rules" on self-help performance and local currency programming or attribution and yet still find that it is being criticized for inadequate or inappropriate performance in these areas by an agency in Washington.

As other sources of funds become scarce, the Congress, the Development Coordination Committee, and A.I.D./Washington will find it increasingly tempting to use PL 480 programs--and related local currency proceeds--to make up for losses elsewhere. Thus, there is a real risk that the kinds of successes outlined in this report will be less likely to be replicated because Missions will be under great pressure to do too many things under PL 480 programs.

What the studies show, in fact, is that greater flexibility and less direct intervention and control from Washington are likely to increase the impact of PL 480 on policy dialogue and subsequent policy reform. This linkage is likely to be even stronger if there is more willingness to make multiyear funding commitments on the basis of coherent and well-presented analytic strategy documents coming in from the field. A mutually defined strategy and a multiyear funding commitment from the U.S. Government seem to be the elements that are most likely to lead to successful policy performance.

Additional flexibility and a policy reform multiplier effect are likely to result if Washington becomes less reticent about using PL 480 local currency proceeds to support other donor programs or to use the proceeds as the basis for developing new multidonor programs in which the U.S. Government has a key role from the outset. Mali's Title II, Section 206 program provides an example of successful "commingling" of local currency proceeds from sales of PL 480 commodities and local currency proceeds from other donor food aid programs.

Under this multidonor program, no local currency proceeds can be expended--whatever their source--without the prior unanimous accord of the donor committee. So far, this multidonor effort has created no sense of loss of "leverage" or of "accountability" for local currency proceeds from PL 480. Rather, the "strength in numbers" approach of this program seems to be one of

its most attractive features. Given the relatively low levels of U.S. Government commodities provided, it is doubtful that the PL 480 program alone could have achieved a significant fraction of the policy reform being achieved by the multidonor program.

The main recommendations based on case study findings for A.I.D./Washington and the Food Assistance Subcommittee of the Development Coordination Committee are presented below. The Administration, in consultation with the Congress, should establish a working group with a mandate to review the total PL 480 program experience and to undertake the following activities:

- A.I.D. alone, or in consultation with other members of the Food Assistance Subcommittee of the Development Coordination Committee, should prepare a comprehensive guidebook for the use of U.S. officials responsible for the design and implementation of PL 480 programs. The guidebook should have sections that are appropriate for those involved in all stages of the process, including those--such as senior Embassy officials--who only become involved in higher level negotiations and those who are managing other programs with policy implications relating to those incorporated in PL 480 negotiations and agreements.
- A separate manual or handbook should be prepared for host government officials involved in the PL 480 process, again both for those at the technical and managerial level, who need detailed guidance, and for higher level officials who need less detail.
- The preparation of these guidance materials should coincide with an analysis of total operational requirements implied by the PL 480 programs. This analysis should include specific recommendations to the Development Coordination Committee and the Congress on ways to simplify and improve the functioning of U.S. food aid as a developmental resource.
- Recipient countries and USAID Missions should be encouraged to prepare analytic, multiyear PL 480 strategy documents for submission to Washington on the basis of which the Food Assistance Subcommittee of the Development Coordination Committee can make multiyear funding commitments, where appropriate. Then, only a simple annual approval process would be required, and if performance on the prior year's agreement has been satisfactory, the Mission could begin negotiations without waiting for formal negotiating instructions.

- A.I.D. should examine the potential advantages of drawing in other donors to assist in achieving PL 480 self-help objectives and should address effectively the objections of the Office of Management and Budget to the "commingling" of funds.
- The Food Assistance Subcommittee of the Development Coordination Committee should consider delegating more authority to the field, based on prior approval of strategy papers, to avoid delays in formulating and transmitting negotiating instructions, since such delays reduce the credibility of the U.S. country team during the prenegotiation process, a key element in a successful policy dialogue.

## APPENDIX

### EXECUTIVE SUMMARIES OF COUNTRY CASE STUDIES

#### 1. TUNISIA AND MALI

These two brief case studies of the use of PL 480 resources as a development tool in the Tunisia Title I program and the Mali Title II, Section 206 program stress identification, negotiation, and implementation of self-help provisions and the programming and monitoring of local currency sales proceeds.

The main lessons learned are as follows:

Focus. In both the Mali and the Tunisia programs, objectives or self-help provisions were initially sharply focused, and later amplified or adjusted to include related issues and variables.

Multiyear Approach. Both programs were based on a multiyear approach. In Tunisia, a multiyear strategy was prepared and used as the basis for subsequent agreements and evaluations, although the U.S. Government did not approve a multiyear commitment. In Mali, a multiyear commitment was formally made, consonant with a similar multiyear commitment made by a multidonor group.

Terms of Assistance. The terms of assistance varied considerably between the two programs. However, in both cases the terms were clear and did not differ significantly from one year to the next. Furthermore, the terms depended on the results of annual evaluations that reinforced host government performance on the self-help provisions.

Other Donors. In Tunisia, the U.S. Government was the only donor to focus on a development strategy emphasizing fertilizer policy. Other donor support has only recently been generated for this approach. In Mali, the U.S. Government became the last member of a multidonor group supporting a cereals market liberalization policy and benefited significantly from the efforts made by the other donors before its own participation through the Title II, Section 206 program.

Private Enterprise. In both cases, the PL 480 program supported an increased role for private enterprise. This was done, however, in the context of addressing other policy issues. Thus private enterprise was thus stressed where clear economic benefits were believed to derive from additional private sector activity.

Coordination With Other A.I.D. Programs. In Tunisia, the PL 480 program and other A.I.D. project and program support have been closely coordinated since the beginning of the PL 480 multi-year strategy. In Mali, however, some of the effects of the Cereals Market Restructuring Project, which is supported through PL 480, are likely to run counter to the objectives of some projects being funded with Development Assistance resources. As time goes by, this lack of complementarity in the Mali case may diminish as old projects wind down.

Use of Local Currency Sales Proceeds. In Mali, local currency proceeds of all members of the donor groups are used primarily to meet deficits of the state cereals marketing parastatal to encourage the Government of Mali to raise producer and consumer prices. In Tunisia the proceeds are used to support a general self-help program in agriculture, with specific allocations starting only in the third year of the multiyear strategy period. In context, both approaches seem to be effective.

Problem Analysis and Program Design. In both the Mali and Tunisia programs, good technical analysis preceded commitment of funds, although the source of the technical expertise has differed. The sense that the programs were based on mutually agreed on and sound technical underpinnings eased negotiations in both instances, although other, more broadly "political" concerns also played a role.

Timing of U.S. Government Commitment. In Tunisia, despite the multiyear strategy development, the U.S. Government was willing to make commitments only year by year. However, in Mali, a multiyear commitment up to a specific level of commodities was made at the outset, once the U.S. Government decided to participate in the restructuring project. In Tunisia, a multiyear commitment from Washington would probably have been helpful. In Mali, U.S. Government willingness to adhere to the multiyear approach of the other donors seems to have increased leverage, not decreased it.

Understanding Host Government Constraints. In both cases, negotiations and monitoring have taken into consideration real host government constraints, both economic and political. This flexibility seems to have increased positive policy impact rather than the reverse. The approach has also allowed for mid-course corrections, where necessary, based on a sort of early-warning system regarding targets and benchmarks. The benefits resulting from the mid-course corrections, in turn, improve the chances of negotiating policy changes over time and increase U.S. Government credibility when the policy change at issue is hard for the host government to make.

Continuity of U.S. Representatives and Host Country Receptivity. Good personal and professional relationships have been crucial in both countries for ease and effectiveness of program negotiations. Continuity has also been very important for success. In Tunisia, continuity was provided by the use of an outside consultant. In Mali, continuity was provided by the long-term involvement of several key donor representatives, including one particularly committed U.S. Ambassador.

PL 480 Resource as Leverage. In both instances, considerable positive policy change has been encouraged by skillful use of the PL 480 resources. In neither case has a heavy-handed use been made of the terms "policy dialogue" and "self-help provisions," both of which are often considered offensive by host government officials. In Tunisia, other donors are now supporting the policy changes first advocated and supported by the U.S. Government in the PL 480 program context. In Mali, the U.S. Government is now providing concrete support for policy changes first sponsored by other donors. These examples support the argument that skillfully managed nonproject assistance can yield positive policy results over a relatively short period of time, a breadth of impact that project assistance may not be able to achieve.

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2. HAITI2.1 General

This case study of the Haiti Food for Development Program is part of a case study series designed to assist A.I.D. and host countries to improve the programming of PL 480 resources, provide a basis for replication of successful programs, and through lessons learned, improve programming and evaluation of other types of nonproject assistance. The Haiti case is particularly interesting because the Title I program in Haiti is 10 years old, and a new Title III program was just beginning when the case study was being carried out. This summary provides brief background information and lessons learned concerning the identification and negotiation of self-help measures and the programming of local currency sales proceeds to support A.I.D.'s other project and program assistance to Haiti.

2.2 Country Background

Development assistance to the Government of Haiti was resumed by A.I.D. in 1973, when Jean-Claude Duvalier took over the presidency from his father, Francois Duvalier. At that point, the economic, social, and political situation was bleak. All sectors of the economy were in disarray. A.I.D. assistance began to focus on agriculture, roads, health, and regional development of the poorest areas.

When A.I.D.'s program started in 1973, the USAID Mission had only two staff members; given the staffing limitations, a Title I program seemed a useful means for helping to solve the problems of underdevelopment in Haiti. As A.I.D.'s assistance program in Haiti developed, staffing levels increased, and the project portfolio became more varied.

In the early 1980s, A.I.D. shifted implementation of its projects from the Government of Haiti to private voluntary organizations in the hope that these organizations would be able to reach beneficiaries more efficiently. The shift was also undertaken to serve notice to the Government of Haiti that its approach to development issues and implementation was problematic for the U.S. Government, despite the importance of relations between the two countries. By this point (near the end of the regime of Jean-Claude Duvalier), even after many years of bilateral assistance, Haiti was still one of the least developed countries in the Western Hemisphere.

### 2.3 Program Development

The first Title I program was designed to help meet the severe malnutrition problems of Haiti, as well as to support improvements in agricultural research, extension, and production. Over the 10 years of the Title I program, local currency sales proceeds became critical to the rest of the A.I.D. program because they provided the counterpart contribution from the Government of Haiti in support of the Mission's project portfolio. In 1978, the USAID Mission began to design a Title III program, whose main emphasis was on administrative reform. Title III had just been added to the legislation, and criteria for approval were not well developed. Negotiations of the policy content of the proposed Title III program for Haiti were not broad based; from hindsight it appears that no one in the Government of Haiti then believed that sufficient benefit would accrue from such a program to justify the political stress that would result from attempts to implement the necessary administrative reforms.

In 1981, the A.I.D. Administrator sent a high-level team to Haiti to review the entire A.I.D. assistance program, including the PL 480 program. Subsequently, the Mission received an influx of new senior staff, and emphasis was placed on strengthening management of the Title I program. It was believed that improvement of Title I performance would set the stage for ultimate approval of a Title III program. Design of the second Title III program proposal began in 1982; the Project Identification Document was completed in 1983 and the Project Paper in 1984. Negotiations during this preparatory period were conducted informally with a broad range of Government of Haiti representatives and with key members of the private sector involved in agricultural production and export. Part of the design and the related informal negotiation process was the creation of a management structure that would be effective enough to ensure that the Government of Haiti could substantiate claims for debt-forgiveness under the Title III program, one of Title III's most attractive features.

### 2.4 Self-Help Measures

Under the initial Title I agreements, self-help measures were to emphasize direct contribution to development progress in poor rural areas, particularly by enabling the poor to participate actively in increasing agricultural production through small farm agriculture. Specific self-help measures addressed increasing food production for local consumption, increasing sugar and

coffee production for export, revitalizing the national irrigation system, improving the rural marketing system, and increasing public sector expenditures for rural services.

After 1982, when the Mission had decided to try to strengthen performance under Title I, there was a shift toward a "targets of opportunity" approach to policy reform incorporated in self-help measures. As the program documentation for Title III indicates, some policy reforms that would be included as self-help measures in the ultimate Title III agreement of 1985 had already been started by the Government of Haiti under Title I as a sort of indicator of good faith. Under Title III, self-help measures emphasized a related set of policy measures that were supposed to improve agricultural production, especially of tree crops, which would in turn have a beneficial effect on the serious erosion of Haiti's hillsides and on employment creation and undernutrition. Related policy measures were concerned with road maintenance and the taxes on gasoline and diesel fuel. Particular policy provisions included a staged reduction in the coffee tax, a variety of agricultural price reforms, user management of irrigation systems, and increased agricultural credit availability.

#### 2.4.1 Quality of Underlying Analysis

USAID/Haiti, through its own efforts and those of Haitian contract technicians, conducted a wide range of analytic studies to generate findings that could inform the choice of policy changes to be included in the Title III program. Overall, the quality of the analyses was excellent. Papers were shared with counterpart technicians in the appropriate Government ministries, and in some instances, comments or whole papers were received in response. This informal, cooperative process, and the use of Haitian consultants, helped to ensure that the USAID Mission was aware of at least some of the key technical inputs to the Government of Haiti's decision-making process and could have some informal influence over, and warning of, decisions made. This analysis process greatly assisted the Mission in the complex task of conducting informal and formal negotiations for the policy reform agenda that was to be embodied in the self-help provisions of the Title III agreement.

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#### 2.4.2 Self-Help Measure Identification and Notification: Lessons Learned

Some lessons learned from the examination of the Haiti Title III self-help measure identification and negotiation processes are as follows:

1. Maintaining an understanding of the background to the host government's decision-making process regarding policy reform is of great importance in designing and negotiating a PL 480 program. Because of the quality of the Foreign Service National employees and the U.S. direct-hire staff in USAID/Haiti, the USAID Mission had developed a good understanding of the structure and content of the Government of Haiti's approach to policy decision-making. Given the rapid changes in staffing and approach that were typical of the Government of Haiti, keeping informed of these changes was of extreme importance in designing and implementing a Food for Development program with important policy implications. In the Haiti case, this was facilitated by the use of Haitian technicians who, although they worked in the United States, maintained key contacts in Haitian society and were able, to some extent, to act as informal intermediaries between the Mission and the Government of Haiti.

2. A.I.D.'s recent increase in emphasis on self-help performance has meant that the host government may be more willing to engage in policy dialogue leading to incremental policy reform. Given the magnitude of the U.S. Government's contribution to the development budget of the Government of Haiti each year and the Mission's seriousness about self-help performance, the U.S. country team is in a position to exert considerable influence on Government of Haiti decisions. Whether the U.S. team has chosen to do so, however, is another matter. Rather than relying on the traditional leverage approach, USAID/Haiti has recently taken the approach of rewarding the Government for positive performance by increasing the levels of funding, at least under the Title I program. PL 480 programs are not conditional in the usual sense, because the commodities are delivered regardless of what the importing country government does about its self-help measures during a given agreement year. Thus, as is indicated by the Haiti case, it is more effective to exert influence, rather than to use ephemeral leverage or nonexistent conditionality, to encourage positive performance by the host government on self-help measures.

While referring decisions to Washington may be a useful delaying tactic in some negotiating contexts (delays may allow the situation to change and the host government to become more tractable on certain policy issues), delays in approval from

Washington can also undercut the credibility of the U.S. country team during program negotiations. The process of exerting a positive influence on policy reform during the 3 years of negotiations for the Title III program was at times seriously jeopardized by the long delays between the various steps of the Washington approval process. It is difficult for the field to maintain momentum in the dialogue on complex and sensitive policy issues when it does not have authority to conduct negotiations and make changes on the spot. Providing limited delegation of authority to the field might be a useful experiment that could provide a workable solution to this problem.

## 2.5 Local Currency Programming: Lessons Learned

Haiti's case is unusual in that the majority of local currency sales proceeds are programmed as Government of Haiti counterpart funds for the Mission's project portfolio. This means that the linkage between the Food for Development program and the rest of the U.S. assistance program is very close. Despite improvements in the programming system and the fact that the Government of Haiti has allowed the Mission to coprogram funds under Title I, there have been bottlenecks, disbursements have been delayed, and reporting has not always been as informative as possible.

Because of the Government of Haiti's awareness of the Mission's dependence on the local currency proceeds for the implementation of USAID's projects in Haiti, there has been a concomitant reduction in perceived U.S. influence over Haiti's implementation of the self-help measures and policy provisions agreed to each year. However, under the new Title III program, the debt-forgiveness feature that is conditional on performance on self-help measures may provide a sufficient incentive for performance. In addition, in recent years, good performance under Title I has been encouraged as an incentive for Title III approval; nevertheless serious problems with programming local currency proceeds exist under a number of ongoing projects.

Some specific lessons from the Haiti case follow:

1. Although management of local currency proceeds is important, Missions should be cautious about developing costly and personnel-intensive management systems for PL 480 programs. In Haiti, the Title I management system has evolved over the last 10 years. Recently, in advance of Title III, some significant streamlining changes have been made. The desire to ensure that Title III performance would be good led to the design of a complex and expensive management structure for the Government of

Haiti. An equally complex, and potentially staff-intensive process was designed for the USAID Mission so that coprogramming and preimplementation approvals and project monitoring and evaluation would all be done jointly and on schedule. These systems have created significant management burdens for the Mission and the Government of Haiti. Also, there is some question whether establishing a completely new structure in the Government of Haiti to manage a 3-year program is institutionally wise. In Haiti, the wisdom of designing such a management structure is especially questionable because an existing unit is already receiving U.S. technical assistance in management--but the unit was not given management responsibility for the Title III program.

2. Assisting a host government to reform itself rather than trying to force reforms in situations in which A.I.D. does not have sufficient leverage is a more successful means of promoting reform and is more likely to lead to institutionalization of the specific reforms and the reform process. After 10 years, improvements in the financial and project management system and decision-making process instituted as part of the Title I program have been institutionalized within the Government of Haiti. However, there are still some problems with the system under the Title III program. The creation, at A.I.D.'s suggestion, of a new management entity for the Title III program is a sign that the institutionalization of a management system has not really taken place. As for the policy dialogue and reform process, Haitian Government performance and seriousness seem to fluctuate with the many changes in personalities and power within the Government. On the more positive side, the USAID Mission's decision to try to help set the stage for the Government of Haiti to reform itself, rather than to attempt to force reforms when the Mission did not have sufficient leverage to do so, seems to have been a wise one. What will be most telling will be the policy situation--and the Haitian Government's ability to read the results of Title III policy reforms--that results at the end of the program's 3 years.

3. ZAMBIA3.1 General

This report is the fourth in a series of five case studies aimed at identifying how PL 480 programs can be better designed and managed to increase their developmental effectiveness. Zambia's Title I program was chosen because it had a reasonably long period of continuous operation, called for sufficiently specific self-help commitments to permit an appraisal of the effectiveness of the program, and appeared to exemplify the type of overall program integration the Agency is seeking to attain. The evaluation examines the processes by which self-help measures and the uses of local currency sales proceeds are identified, negotiated, implemented, and monitored; assesses the congruence of self-help measures and Government actions; examines the adequacy of analyses supporting the self-help measures; and identifies lessons learned.

3.2 Country Background

Zambia is a country of 6.6 million people with an annual growth rate of 3.2 percent. Over 45 percent of the population is urbanized. Per capita income was estimated at about \$400-\$450 in 1985, but it would be about \$2,000 at the exchange rate prevailing after October 3, 1985.

Zambia's economy is characterized by the following:

- Heavy dependence on copper, an export subject to wide price swings on the international market
- Dualism between an urban-oriented modern sector and the rural agricultural sector
- Dualism within the agricultural sector between a small number of expatriate commercial farmers using modern, capital-intensive techniques and the vast number of Zambian farmers using traditional subsistence technology

The fundamental development problem in Zambia is to diversify the economy by reducing dependence on the mining sector and increasing emphasis on the high potential yet low-performance agricultural sector. Toward this end, the Government of the Republic of Zambia recently undertook several bold economic reforms and has agreed to implement still more reforms over the

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next 2 years. Western donors, particularly the World Bank and A.I.D., view Zambia's market liberalization program as a major test case for the kind of policies they believe are necessary throughout Sub-Saharan Africa. These donors are placing high stakes on chances that Zambia's program will succeed.

### 3.3 Program Development

From FY 1977 to FY 1986, the U.S. Government provided Zambia with 448,300 metric tons of PL 480 Title I wheat, rice, and vegetable oil valued at \$90 million. This assistance constituted 23 percent of total U.S. economic assistance to Zambia over this period. Other assistance included Economic Support Funds (commodity import programs), 51 percent; Development Assistance project aid, 14 percent; assistance under the African Economic Policy Reform Program (AEPRP), 6 percent; and Title II emergency food aid, 6 percent (see Table 3-1).

Table 3-1. U.S. Economic Assistance to Zambia, FY 1977-FY 1986  
(millions of dollars)

Program	FY 1977-1979		FY 1980-1984		FY 1985-1986		FY 1977-1986	
	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)
ESF	70.0	72	101.4	54	30.0	26	201.4	51
AEPRP	-	-	-	-	25.0	22	25.0	6
DA	0.4	-	18.3	10	39.5	35	58.2	14
PL 480 I	23.9	25	46.5	25	20.0	17	90.4	23
PL 480 II	3.2	3	20.4	11	0.0	0	23.6	6
Total	97.5	100	186.6	100	114.5	100	398.6	100

Note: ESF is Economic Support Fund and DA is Development Assistance.

Source: A.I.D. Congressional Presentations FY 1981-FY 1986.

The development of the Zambia PL 480 Title I program is conveniently viewed in terms of three time periods: FY 1977-FY 1979, when Zambia suffered a severe economic crisis; FY 1980-FY 1984, a period of continuing economic deterioration; and

FY 1985-FY 1986, a period during which the Government undertook major economic reforms to stabilize, restructure, and revitalize the economy.

From 1977 to 1979 the Government of Zambia suffered severe financial difficulties due to continuing depressed world copper prices and the political and economic strains caused by the independence struggles in Southern Africa. The primary purpose of the PL 480 Title I program during this period was to provide balance of payments and budgetary support. Self-help measures mainly supported institutional and human resource development activities in the agricultural sector; no major policy changes were sought. Local currency generations supported the Zambian Government's agricultural and rural development budgets, although specific uses of local currencies were not stipulated.

PL 480 Title I aid during this and subsequent periods is shown in Table 3-1. PL 480 Title I constituted about one-fourth of total economic assistance to Zambia until FY 1985, when Development Assistance obligations increased substantially.

From 1980 to 1984, Zambia's economic situation continued to deteriorate. The Government responded by issuing a 3-year investment plan to promote agricultural and rural development and to diversify the economy. This prompted a transition in the A.I.D. program whereby balance of payments support would continue on a diminishing scale while project assistance would be gradually increased. The A.I.D. program aimed to increase food production and small-farmer income. All of A.I.D.'s project and program elements in Zambia were closely integrated to contribute towards these goals.

Self-help measures during this period centered mainly on policy initiatives to improve producer prices and reduce subsidies. Beginning in FY 1981, commodity import program agreements included "support measures" that paralleled the PL 480 self-help measures. PL 480 local currency proceeds supported policies to increase the productivity of small farmers and improve food distribution systems. However, a "special account" was not established, and local currency generations were accounted for by "attributions" to Government of Zambia development budget items satisfying the above stated criteria.

The Government of Zambia undertook a bold economic reform program in 1985 to restructure and "privatize" its public sector-dominated economy. This effort has won substantial support from the U.S. Government and other donors. The U.S. Government responded with a \$25 million AEPRP commodity aid program (FY 1985) in exchange for major policy reforms, and a \$15 million untied

cash transfer grant (FY 1986) to support a foreign exchange auction program.

The FY 1985 PL 480 self-help measures and commodity import program support measures were reoriented to complement the market liberalization measures negotiated under the \$25 million commodity aid program. The cash transfer grant substituted for the commodity import program in FY 1986. The FY 1986 self-help measures were modest compared with earlier years, filling in gaps not covered under the \$25 million AEPRP commodity agreement. Local currencies continued to be allocated by attribution to jointly agreed budget activities.

### 3.4 Self-Help Measures

The USAID Mission processes for identifying, negotiating, implementing, and monitoring self-help measures were given particular attention in this evaluation. USAID/Zambia's approach to identifying self-help measures involved reliance on analyses prepared in large part by outside consultants, recurrent use of the same consultants, a continuing informal dialogue with the Government of Zambia and other donors, and establishment of a self-help measure committee to ensure that self-help measures were well integrated with the Mission's overall development strategy.

The negotiation process for the PL 480 program involved a mixed informal/formal approach. Negotiations were pursued informally up to 6 months before the signing of the PL 480 agreement. Only when the prospects were good for final agreement did the parties sit down to a session of formal negotiations. Policy dialogue took place at three levels: (1) between the USAID Mission Director and the Permanent Secretaries of Finance and Agriculture; (2) between the USAID Mission technical staff and Government of Zambia counterparts; and (3) within the Ministry of Agriculture and Water Development, between personnel assigned to USAID/Zambia-supported projects and their Zambian counterparts.

Methods of monitoring the implementation of self-help measures included the establishment of benchmarks, procedures for follow-up, and schedules for the disbursement of commodities and local currency proceeds and the commissioning of in-house analyses.

The examination of these processes yielded several lessons that may be of interest to other Missions, particularly smaller Missions that manage large programs. The following lessons learned are especially noteworthy:

1. Management of PL 480 Title I and overall country program management can be facilitated if program activities are integrated and focused on one or two key objectives or sectors. USAID/Zambia's PL 480 programs and its other country projects and programs were tightly interwoven and focused on increasing small farmer productivity and income. This integration permitted complementarities and "economies" of analytical effort in identifying self-help measures and other program initiatives. The integrated programs also enabled USAID/Zambia to strengthen its negotiating position. Once agreement was secured on one program, agreement proceeded more smoothly on programs that followed.

On the other hand, integration can cause implementation delays if progress on one program is linked to that of another. For instance, the Ministry of Finance was unsympathetic to a USAID Mission request to improve monitoring of one program until USAID released funds under another.

2. A small post can strengthen its analytical capability to identify self-help measures through regular, periodic temporary-duty assignments of direct-hire officers and consultants. USAID/Zambia tended to use the same temporary duty personnel to assist in identifying and redesigning self-help measures. This continuity was advantageous because consultants arrived with a working knowledge of the country and an established rapport with key Government of Zambia and USAID officials.

3. Informal discussions with host government counterparts prior to negotiations on self-help measures can provide insight into the host government's receptivity to contemplated self-help measures. Informal discussions also allow time for ideas and concepts to be vetted within the government. USAID/Zambia held informal discussions up to 6 months before the start of formal negotiations. Discussions were held at several levels ranging from the technician level to the cabinet level and sometimes included the economic adviser to the President.

4. In larger Missions, the process of identifying self-help measures can be strengthened by appointing a committee to identify such measures. USAID/Zambia's Mission Director appointed a committee to identify self-help measures. The members of the committee included the assistant director, regional Food for Peace officer, the agricultural economist, and the agriculture officer. The committee prepared a matrix indicating the PL 480 self-help measures and measures negotiated under other USAID/Zambia programs. Self-help measures that had been met or were likely to be met were eliminated from the matrix, and those that required continued emphasis were retained. Most important, the

committee identified "missing pieces" that were needed to fill "gaps" not addressed in existing agreements.

5. Mixing informal and formal negotiating approaches can facilitate agreement and give the host government a sense that it is involved more in "dialogue" than "leverage." The USAID/Zambia negotiating strategy shifted over time from a formal to a mixed informal/formal approach. Informal discussions took place by appointment at the Ministries of Finance and Agriculture and Water Development and during encounters at official or social functions. Only when prospects were good for final agreement did the parties engage in formal negotiations. One senior Zambian official compared this approach favorably with the stricter style of negotiation employed by the World Bank.

A more informal approach is not without pitfalls. Negotiations can suffer if Mission staff do not keep each other fully informed about their discussions with host government officials. To avoid this problem, Zambia's Mission Director prefers to conduct policy negotiations himself rather than delegate this responsibility to his staff. Mission staff do discuss policy issues with their Government of Zambia counterparts but are not directly involved in negotiations.

6. Projects provide useful mechanisms for supporting and implementing policy reform initiatives. USAID/Zambia's development strategy offers an excellent example of integrating PL 480 Title I self-help measures with other program activities. Implementation of self-help measures could be further facilitated if additional project aid were made available and if more of the existing project aid were drawn on. This process would require that additional technical staff be assigned to USAID/Zambia.

7. Implementation and monitoring considerations should be part of the policy and program dialogue. The Government of Zambia viewed self-help reporting more in terms of a need to fulfill an A.I.D. requirement than as a useful device for improving its implementation performance.

8. Self-help measures should include specific benchmarks and deadlines to facilitate implementation and monitoring. Over time, and to the credit of USAID/Zambia officials, self-help measures have been expressed increasingly in terms of more precise evaluation criteria.

9. Measuring the degree of cause and effect between self-help commitments and host government policy reforms is difficult. Nevertheless a strong and continuing U.S. commitment to major policy reforms can produce successful results. The evaluation team found a high level of congruence between commitments con-

tained in U.S.-Government of Zambia agreements and Zambian performance. These commitments included measures to improve levels of spending on research on food subsidies, especially consumer subsidies; to improve price incentives for farmers; to increase private enterprise involvement in marketing; to reduce input subsidies (with some variations); to reduce or eliminate spending on subsidies for parastatals involved in marketing and transport; to reduce the domestic budget deficit; and to narrow the balance of payments gap.

10. Continuity of self-help measures over a period of years is probably essential for successfully promoting policy reform. As a general rule, individual self-help measures should continue with only minimal changes in annual agreements until the issue is satisfactorily resolved or until it is established that the particular self-help measure was originally a poor choice.

Continuity of self-help measures in the Zambian case has been outstanding, both taken alone and in conjunction with other U.S. assistance. The U.S. assistance program has focused heavily on the development of a policy theme, particularly on policies affecting agriculture and food. Policies receiving major emphasis included consumer, producer, and input prices and their relationships to producer incentives and production; imports and the balance of trade; subsidy costs; and internal economic stability.

### 3.5 Adequacy of Supporting Analyses

Analyses supporting the Zambia Title I self-help measures and other policy and program activities were conducted largely by contractors and temporary duty officials from the Regional Economic Development Services Office (REDSO) and A.I.D./Washington. World Bank and International Monetary Fund (IMF) studies were also drawn on. These analyses, together with "in house" analyses by Mission professionals, constituted a substantial body of documentation on which to base policy and program recommendations.

USAID/Zambia has been an exemplary Mission in terms of the amount of resources it has committed relative to the number of U.S. direct-hire personnel on its staff. The question nevertheless arises whether the quality of self-help measures might have been improved had the Mission had more professional support from within and outside the Mission. From within, the addition of one or two professionals beyond those allowed would have seemed justified given the level of program resources. Outside the Mission, greater use could have been made of the analytical capabilities of the dozen technical assistance personnel currently working in Zambia on the Zambia Agricultural Training and Institu-

tional Development and the Zambia Agricultural Development Research and Extension projects.

Some self-help measures received more supporting analysis than others. Substantial evidence was marshalled concerning the effects of subsidies and foreign exchange rates on the Government of Zambia's budget and balance of payments. Less attention was given to estimating the likely outcome of (1) the decontrol of prices and the auctioning of foreign exchange, (2) the opening of agricultural markets to private and cooperative traders, and (3) the transfer of responsibility for agricultural inputs, including fertilizers, to the private sector. Areas in which the Mission might consider further analysis include the following:

- The capacity of existing rural enterprises to handle trade in agricultural commodities
- The economic impact of grain market liberalization on small farmers
- The inefficient use of fertilizers in terms of the balance of chemical input and crop response
- The soil acidity problem and the potential for developing a limestone processing and marketing capability

### 3.6 PL 480 Local Currency Programming

Local currency equivalent to \$82 million in Title I aid and \$149 million in Title II aid was generated from FY 1975 to FY 1985. Commodity import programs generated the equivalent of about \$200 million over the same period. Local currency generated under all these programs was "attributed" to jointly agreed items in the Government of Zambia's budget up to FY 1984. All Title I and commodity import programs were loan funded until FY 1984, and no special accounts were established for the local currency proceeds. A special account was established for local currency proceeds of the commodity import program beginning in FY 1984 when the U.S. Government provided grant assistance for this program. The USAID Mission and the Government of Zambia also established a special account for local currency generated under grant-funded Title II programs.

PL 480 agreements through FY 1982 provided that local currency proceeds finance the self-help measures and development activities in the agricultural and rural sectors. These agreements also emphasized improving the lives of the poorest and the capacity of this segment of the population to participate in the

country's development. The FY 1983 agreement specified priorities to support agricultural price incentives, strengthen agricultural marketing infrastructure, and improve agricultural management and technical capabilities. The FY 1984 agreement added the strengthening of agricultural credit institutions and included cooperatives under the marketing infrastructure priority.

USAID/Zambia and the Ministry of Finance jointly reviewed the Zambian Government budget to identify and negotiate items for attribution. Reports of local currency use have tended to be perfunctory, and USAID Mission monitoring of local currency proceeds was generally limited to ensuring that the Agency received periodic attribution reports. USAID/Zambia has always considered the self-help measures to be more important than the uses of the local currency proceeds. As long as the Government of Zambia performed on the self-help measures, USAID/Zambia placed little emphasis on the use of the local currency proceeds.

Lessons learned from Zambia's local currency experience follow:

1. Local currency programming can be both an asset and a liability. Local currency programming is an asset if the host government perceives it as bringing in additional resources that the recipient agency may use to achieve its goals. Local currency programming is a liability to the extent that it reduces the control of budgetary authorities over the total allocation of resources and, as such, diminishes the value of the resources to these authorities. The real value of the resources, and the source of any leverage that exists, is in the commodities financed, not in the local currency proceeds.

In the Zambian case, the Government of Zambia viewed local currency programming more as a liability than as an asset and protected its authority over local currency uses. The Government was concerned that other donors might argue for a special account if USAID Mission insisted on one. The Government of Zambia feared that special donor accounts would spell chaos for its budgeting process. Furthermore, the Government believed that it had a right to allocate Title I local currency sales proceeds because the Title I loans were repayable in foreign exchange.

2. Local currency programming can produce serious, possibly destabilizing uncertainty in the host government's budgetary process when local currency generations are large compared with total resources and when A.I.D. must approve local currency uses. USAID/Zambia adopted an attribution process for Title I local currency proceeds because efforts to program them (together with local currency proceeds from commodity import programs) would seriously distort the Government of Zambia's budget and develop-

ment priorities. Nonetheless, about Kwacha 250 million generated from local currency programs other than Title I will accumulate in special accounts over the next year or two. This is an amount equivalent to the total 1984 development budget of the Government of Zambia. In such cases, it may be prudent to require special account deposits only in amounts the Mission can reasonably expect to manage. The balance would be accounted for by attribution.

#### 4. PAKISTAN

##### 4.1 General

This report is the fifth in a series of five case studies aimed at identifying ways to design and manage PL 480 programs to increase their developmental effectiveness. Pakistan's Title I program was chosen because it has been in continuous operation for a long time, called for sufficiently specific self-help commitments to permit an appraisal of their effectiveness, and has been a major element of the U.S. commitment, beginning in 1981/1982, to a substantially expanded program of assistance to Pakistan.

##### 4.2 Country Background

Pakistan is a country of 95 million people with a per capita income of \$390. In recent years, progress in increasing average per capita gross national product (GNP) has been impressive despite an annual population growth of 3 percent. The agricultural sector accounts for 24 percent of the gross domestic product (GDP) and is the principal source of export earnings. Agriculture directly employs 51 percent of the active labor force. Growth in the agriculture sector peaked at 6.7 percent in 1979-1980 and averaged 4.5 percent for the 5 years that followed. Pakistan has been a major net exporter of cereals in recent years. The principal agricultural import is vegetable oil, which costs \$500-\$600 million per year.

Pakistan's major macroeconomic problems are as follows:

- A large merchandise trade deficit, with exports covering only 43 percent of imports
- A growing debt service load
- A growing external debt that equalled \$10 billion in 1984
- A large budgetary deficit

About 75 percent of the current trade deficit is financed by worker remittances and donor assistance, both of which are unlikely to grow in real terms. The U.S. commitment of \$3.2 billion in economic and military assistance over 6 years will come to an end in 1987. A new 6-year program of economic and military

assistance worth \$4.02 billion (of which \$2.28 billion is economic aid) has recently been negotiated to begin in FY 1988.

Recently Pakistan has moved toward a transfer from military to civilian government. A new cabinet with a civilian prime minister was announced in January 1985. This Government recently announced major policy changes, in the edible oil sector, which USAID Mission had long been encouraging.

#### 4.3 Program Development

U.S. food aid has been provided every year since 1952 and has totaled approximately \$2.6 billion over 34 years, most of which has been offered under Title I. The principal commodities provided have been wheat and vegetable oil. PL 480-generated local currency resources have been a major factor in promoting agricultural growth and industrial development, but PL 480 financing has also contributed to a rapid growth in vegetable oil (ghee) consumption and import dependence.

Over the years, there has been some shifting in the focus of self-help measures between wheat and vegetable oil as one or the other appeared to present a more critical problem. A decline in the wheat output growth rate in the early 1970s, owing in part to complacency (self-sufficiency was then in sight) and a false rust-disease scare in 1978, again turned attention to wheat. In 1981, after vegetable oil had again returned to the forefront, a team assembled by USAID/Islamabad helped design an oilseed and vegetable oil program to address the problem of rapidly growing vegetable oil imports. However, as a result of American Soybean Association opposition to U.S. assistance for oilseed production, self-help measures and U.S. support for the vegetable oil sector focused instead on oilseed and oil pricing, marketing and processing liberalization, and the livestock industry (as the principal consumer of oilseed cake and meal). The current understanding is that although A.I.D. can support and promote policy reform, direct effort to increase oilseed production will be left to the Government of Pakistan.

#### 4.4 Self-Help Measures

Self-help measures have been identified within the context of overall development assistance and the continuing informal, low-key dialogue between USAID/Pakistan and Government of Pakistan officials on subjects related to Pakistan's development needs. Various studies over the years have helped guide self-

help measure development. The USAID Mission also consulted with other donors, notably the World Bank, on the policy reform measures needed. In addition, USAID/Pakistan relied on outside assistance to develop a strategy for PL 480 and vegetable oil policy in 1981 and to conduct two major studies during 1982-1984 to orient the development of measures to alleviate dependence on imported vegetable oil. Both of the major studies were well done; the one that focused on marketing and stock management was of particularly high quality. A seminar based on the results of these studies drew significant participation from the Government of Pakistan and became an important part of the policy dialogue. The primary host government entity involved in identifying and analyzing self-help measures is the Economic Affairs Division of the Ministry of Finance. The Economic Affairs Division shares draft versions of self-help measure proposals with other concerned Government agencies.

After 34 years, the negotiation process is both well understood and established. Each side knows the limits of the other. Informal discussions of draft self-help measures set the stage for later formal negotiations. The process usually starts at the beginning of the fiscal year. Although an attempt is made to achieve an agreement by the end of the calendar year, signing almost always takes place in spring of the following year. Real differences do emerge during negotiations. The U.S. Government has apparently won points of difference in the past but is careful not to propose measures that the Government of Pakistan will not be able to accept. Pakistani negotiators have held a strong card in recent years, owing to a U.S. multiyear commitment to a large and specific assistance level.

Washington has recently played a critical role in PL 480 decision-making and has affected the integration of PL 480 with other development assistance by ruling out direct support to oilseed production. Although the Government of Pakistan may regret this U.S. decision, it does understand the pressures of domestic politics. There is, however, still some sensitivity to the advantages accorded to India that are not given to Pakistan, one being the more generous support of the vegetable oil sector under the PL 480 Title II program in India.

In April 1986 the civilian cabinet of Prime Minister Junejo announced several important policy measures, most of which the USAID Mission has long encouraged, to reduce controls on the vegetable oil and vegetable ghee industry. These measures include the following:

- Removing price controls on vegetable ghee and edible oil
- Eliminating restrictions on private sector import palm and vegetable oils
- Levying a variable import duty in lieu of the excise tax and import surcharge previously levied on vegetable oil imports in order to equalize import costs and the domestic support price
- Permitting existing private ghee production factories to produce at full plant capacity by removing production quotas that often limited these factories to operating at one-third to one-half capacity

The Government continues to retain its prerogatives of licensing new ghee producers and permitting existing private producers to expand operations.

Over the approximately two decades that self-help measures have been required, the Government of Pakistan has taken its commitments seriously and has tried hard to implement them, but there have been some recurring problems:

- The Government of Pakistan has periodically imposed restrictions, which U.S. officials generally believed were either too severe or unnecessary, on private wheat trade and on private interdistrict grain movement in times of shortages.
- Government delay in adjusting wheat and wheat flour prices has occasionally been excessively long.
- The Government has sometimes appeared to pay less attention to the implementation of the vegetable oil strategy it had developed than U.S. officials believed was desirable, given the magnitude of the problem.

Methods of monitoring the performance of self-help measures include the reporting system (use-of-proceeds reports and self-help reports) and more informal methods, such as discussions between relevant officials. Both benchmarks and reporting requirements have become more complex over time. The reporting requirements have to some extent distracted attention from the self-help measures themselves and are also out of phase with the general flow of Government business.

The examination of these processes yielded several lessons. The following are especially noteworthy:

1. USAID/Pakistan technical offices should participate in the policy dialogue. The PL 480 policy dialogue, which has focused on agriculture, was facilitated by drawing on expertise from the Mission's Agriculture Office and by the use of other forums and activities in agriculture to support and sustain the dialogue.

2. PL 480 should be integrated with other U.S. assistance to the extent feasible. Integration has been hampered in Pakistan recently because of the decision that USAID Mission would not directly support oilseed production. However, prices and price incentives, which have been a major subject of PL 480 discussion, have been key factors in promoting agricultural growth. In general, self-help measures related to vegetable oil are tied only to PL 480, while those in other areas, such as fertilizer, are also tied to issues relevant to commodity import programs or other assistance programs. Considerable PL 480 local currency proceeds have been used for research and water development, as have other aid funds. The FY 1986 PL 480 program includes new self-help measures calling for studies on agribusiness and small farmer credit. These studies will support possible new USAID/Pakistan programs.

3. A low profile in policy dialogue can work. Pakistani and U.S. officials have maintained good working relationships, and evidence indicates that many policy improvements are congruent with suggestions put forth by USAID/Islamabad personnel. U.S. assistance to agriculture has been substantial and on the whole well managed, and both the assistance and the counsel of U.S. agriculture personnel have been highly valued by Pakistani officials.

4. Continuity in self-help measures is important. Self-help measures have had considerable continuity in Pakistan, particularly those devoted to wheat and vegetable oil. This continuity has helped reinforce the seriousness of U.S. intentions among members of the Pakistani Government. However, there have been a few sharp shifts in attention from one commodity to the other, which slowed progress in the vegetable oil subsector. Production of wheat, the principal crop and the longest lasting policy theme, also suffered some ups and downs, but benefited from greater continuity of U.S. assistance and support and, of course, from being the primary Pakistani food concern. Some of the changes in self-help measures have reflected changes in the actual urgency, or the perception of urgency, of different problems, whereas others have reflected changes in personnel on the U.S. side or shifts in the political winds in Washington.

5. Simplicity and a sharp focus on self-help conditions is very important. When the number of themes reflected in self-help

measures or the number of self-help measures themselves increases, the attention paid to each declines sharply. The inclusion of a great many or very complex benchmarks for even two or three self-help measures has a similar effect. For example, in 1979, when there was a shift from vegetable oil as the only self-help measure to the addition of five new measures, many Pakistani Government officials interpreted the shift as a downgrading of the vegetable oil issue. Further unease was caused by the fact that the previous year's multiple vegetable oil-related self-help measures had basically been combined in a single new self-help measure, which also seemed to downgrade vegetable oil as a concern.

6. Opportunities to develop clear multiyear programs should be used. Pakistan is one of the very few countries that has received a specific PL 480 multiyear aid commitment. However, USAID/Pakistan did not develop a multiyear strategy with a scheduled implementation plan to accompany the commitment and so perhaps lost an opportunity to strengthen its program. In part, the A.I.D. decision was the result of limitations on the Mission's ability to be responsive in the oilseeds subsector. In late 1984, however, the USAID Mission did develop a multiyear framework, which serves similar purposes, to guide negotiations and agreements.

7. Reporting requirements should be straightforward, and appropriate guidance should be provided. Donors in Pakistan as elsewhere have different reporting formats and schedules. Together, these reporting requirements may become so time-consuming for the host government that officials spend time on reporting and monitoring progress that should be more properly devoted to policy. Both USAID and Pakistani officials report that complex reporting requirements have created a misdirected emphasis that has frustrated host government personnel and detracted at times from the implementation of self-help measures.

#### 4.5 Local Currency Programming

In the 1980 PL 480 agreement, the Government of Pakistan and A.I.D. established procedures for managing local currency sales proceeds that reduce the USAID Mission role in the Pakistani budgeting process. Local currency proceeds are now credited to a separate subsidiary account in the Consolidated Federal Fund (budget), which is debited as funds are disbursed. The agreements call for consultations on the use of local currency proceeds to take place within 2 weeks of the signing of the PL 480 agreement. Attempts are made to synchronize local currency allocations with the Government budget cycle. In discussion on the

use of local currency sales proceeds, the USAID Mission has opened a dialogue on budget allocations for areas such as primary education, family planning, agricultural universities and research, and irrigation systems maintenance. The evidence suggests that the availability of PL 480 local currency proceeds has resulted in increased resource commitments to the population program and increased allocations to agricultural universities and to research at the provincial and central levels.

Because of the prevailing view that the local currency sales proceeds are a Pakistani resource, the Government of Pakistan is responsible for ex post audit and evaluation of the local currency proceeds. The USAID Mission does not become involved in this process except in connection with U.S.-assisted projects that also receive local currency proceeds. However, the Mission does use the opportunity presented by consultations on the use of local currency proceeds to open a dialogue on sector priorities, and the Mission does review and evaluate the budget aspect of the process.

Some of the important lessons learned are as follows:

1. Large amounts of PL 480 local currency sales proceeds can cause programming problems, particularly for the host government. As in Zambia, the large amount of local currency sales proceeds in Pakistan from PL 480 and other aid programs can generate friction and resentment over U.S. involvement in programming. U.S. involvement represents foreign control of a significant portion of the flexible budget and also creates uncertainties because U.S. decisions could upset otherwise sound budgeting practices. The decision in Pakistan to treat public sector imports under the commodity import program as direct budgetary transfers for which the Government of Pakistan is not required to deposit a local currency equivalent helps reduce the burden. The recently developed approach of attribution, with some effort to increase allocation to a few carefully selected areas in priority sectors, seems appropriate in these circumstances.

2. Local currency programming can be made more effective by conforming substantially to the host government budget cycle and procedures, and in general, by permitting the local currency sales proceeds to be managed as simply as possible, given the host government systems of accounting and audit. Over the years, the USAID Mission in Pakistan has worked with the Government to design and implement approaches that conform substantially with Government practices. This has facilitated program implementation, especially since such large amounts of local currency sales proceeds are involved.

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